

International Survey of Integrated Financial Sector Supervision

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Abstract

Despite the intense debate on the advantages and disadvantages of adopting integrated supervision that has taken place in recent years, little is known about the experiences of countries that have adopted it and the obstacles and challenges they have faced to implement it. In an attempt to shed light on this area, de Luna Martínez and Rose present the results of a survey conducted in a group of 15 countries that have adopted integrated supervision. After a brief review of the literature on integrated supervision, the authors examine four topics:

- The reasons cited by this group of countries for establishing an integrated supervisory agency.
- The scope of regulatory and supervisory powers of these agencies.
- The progress of these agencies in harmonizing their regulatory and supervisory practices across the intermediaries they supervise.
- The practical problems faced by policymakers in adopting integrated supervision.

The survey revealed that the group of integrated supervisory agencies is not as homogeneous as it seems. Important differences arise with regard to the scope of regulatory and supervisory powers the agencies have been given. In fact, contrary to popular belief, less than 50 percent of the agencies can be categorized as mega-supervisors. Another finding is that in most countries progress toward the harmonization of prudential regulation and supervision across financial intermediaries remains limited. Interestingly, the survey revealed that practically all countries believe they have achieved a higher degree of harmonization in the regulation and supervision of banks and securities companies than between banks and insurance firms. The survey also identified some practical problems faced by this group of countries in establishing their unified supervisory agencies. The authors discuss these problems, along with the practical lessons and recommendations provided by the 15 agencies to other countries considering integrated supervision, in the final section of the paper.

This paper—a product of Financial Sector Operations and Policy Department—is part of a larger effort in the department to analyze recent developments in financial sector regulation and supervision. Copies of the paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Susana Coca, room MC9-757, telephone 202-473-7474, fax 202-522-3475, email address scoca@worldbank.org. Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The authors may be contacted at jdellunamartinez@worldbank.org or trose@worldbank.org. July 2003. (44 pages)

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Introduction

At the end of 2002, at least 46 countries had adopted the so-called model of unified or integrated supervision by either establishing a single supervisor for their entire financial sector or by centralizing in one agency the powers to supervise at least two of their main financial intermediaries (such as banking with insurance, banking with securities or securities with insurance).¹ The number of countries adopting integrated supervision has increased rapidly in the past six years. The creation of the Financial Supervisory Authority (FSA) in the United Kingdom, announced in 1997, provided an enormous impetus for the establishment of unified supervisory agencies in many developed and developing countries. The most recent examples of countries adopting a single supervisor are Estonia, Germany, Ireland and Malta (2002).

Countries that have adopted integrated supervision believe that a single supervisor is more effective than multiple supervisors in monitoring risks across financial institutions and responding to real or potential threats that may undermine the stability of a financial system. By centralizing the supervision of a financial system in a single institution, a supervisor can better understand risks arising not only at a single financial intermediary, but also at a group of intermediaries as well as within the entire financial system. Furthermore, unlike a system of multiple supervisors in which accountability may be easily diffused in case of regulatory failure, a single supervisor becomes the only agency accountable for monitoring risks in the financial system. Moreover, it is believed that a single supervisor can better supervise financial conglomerates and minimize regulatory arbitrage by applying a consistent approach to regulation and supervision across all the different segments of the financial system.

Several authors² believe that there are good reasons for keeping financial supervisory agencies separate. In their view, specialized agencies may be better prepared than a single agency to recognize and properly address the unique characteristics of each type of financial intermediary. Moreover, if the mandate of each supervisory agency is clearly defined, it may be easier to ensure proper accountability among them. Furthermore, if a country establishes effective mechanisms to ensure communication and policy coordination among supervisory agencies, there is no reason why these agencies should be less effective than a single supervisor in monitoring a financial system. In addition, the establishment of a single supervisory body eliminates the system of checks and balances available in a system of multiple supervisors and could result in a bureaucratic entity unable to rapidly respond to market developments.

The debate on the advantages and disadvantages of integrated supervision has become increasingly more important in recent years, as a growing number of countries assess the appropriateness of its adoption. This paper attempts to examine the experience of countries that have adopted integrated supervision and show the complexity of tasks involved in making integrated supervision work. This paper focuses on the following issues:

¹ How Countries Supervise Their Banks, Insurers, and Securities Markets. 2003. London, Freshfields.

² See Charles Goodhart (2001): The Organisational Structure of Banking Supervision. (Basel, Switzerland, FSI Occasional Papers, No 1, Financial Stability Institute.

- What are the advantages and disadvantages of integrated supervision?
- What are the reasons for adopting integrated supervision?
- How powerful are the new integrated supervisory agencies in terms of the sectors they oversee and the regulatory and supervisory powers they have been given?
- How far have countries gone in harmonizing their regulatory and supervisory practices?
- What are some of the practical obstacles faced by policy-makers in adopting integrated supervision?

This paper is based on the results of a survey conducted by the authors in a group of 15 developed and developing countries that have established a single supervisory agency or, alternatively, an agency that oversees at least two of the main types of financial intermediaries in a country, including: Australia, Canada, Denmark, Estonia, Hungary, Iceland, Korea, Latvia, Luxembourg, Malta, Mexico, Norway, Singapore, Sweden and the United Kingdom. Senior officials of the new unified agencies of this group of countries kindly responded to a questionnaire sent by the authors (see Annex 1 for the questionnaire).

In addition, the authors had the opportunity to review a survey conducted among the members of the international group of integrated supervisors in 1999 and discuss with some of them their valuable experiences on integrated supervision.³ In comparison to that survey, which is based on a limited group of developed economies, this survey covered both developed and developing countries. It also updated some of the data and included new areas with regard to the size of financial systems and financial conglomerates.

This paper will proceed as follows. The first section briefly reviews the arguments in favor of and against integrated supervision and examines the reasons for adopting it in the countries covered in the survey. Section two assesses how powerful the new integrated supervisory agencies are in terms of the sectors they oversee and the regulatory and supervisory powers they have been given. In the third section we try to measure and compare how far countries have gone in integrating their regulatory and supervisory practices. Finally, in the fourth section we discuss the complexity of merging different supervisory agencies, drawing useful lessons for other countries considering or planning to adopt integrated supervision, and identifying possible areas for future research.

I Arguments in Favor and Against Integrated Supervision

Traditionally, most countries have regulated and supervised their financial intermediaries through multiple institutions, including the ministry of finance, the central bank, as well as specialized supervisory agencies, such as banking, securities and insurance commissions (or superintendencies). Over the years, some countries have established additional agencies to oversee particular market activities (such as derivatives), to supervise particular types of intermediaries (e.g. credit unions, mortgage banks, thrift companies and pension funds), or to

³ The results of that survey are available at:

<http://www.apra.gov.au/Policy/loader.cfm?url=/commonspot/security/getfile.cfm&PageID=1114>

deal with consumer protection issues in the financial sector industry.⁴ The number of regulatory and supervisory authorities can be even larger in countries with a federal political organization, where local authorities may have some responsibility in the supervision of certain types of financial intermediaries operating in their respective jurisdictions.⁵

Although the model of multiple regulators and supervisors prevails in most regions in the world, in the last 20 years an increasing number of countries have started to examine the way they regulate and supervise financial intermediaries. As shown in Table 1, at the end of 2002, 46 countries had adopted the so-called model of unified or integrated supervision by either creating a single regulator for the entire financial sector or by merging two of the main supervisory authorities (such as banking with insurance, banking with securities or securities with insurance).

In 1986, Norway became the first country to establish a single supervisory authority for its banking, securities and insurance sectors. In 1988 and 1991, Denmark and Sweden also established their own single regulatory bodies, respectively. The creation of the Financial Supervisory Authority (FSA) in the United Kingdom, announced in May 1997, provided an enormous impetus for the establishment of single regulators in many other countries, given the role of London as one of the leading financial centers around the globe. Since then, many other developed and developing countries have followed suit in establishing single regulatory bodies or have merged at least two of the existing agencies responsible for components of financial sector supervision. The most recent examples of countries adopting a single supervisor are Estonia, Germany, Ireland, and Malta (2002).

Reportedly, there are currently at least seven countries considering adopting a form of integrated supervision, including Bulgaria, Indonesia, Kazakhstan, Poland, Slovakia, Slovenia, and Ukraine. Moreover, even some of the countries that have established partially unified agencies, such as Mexico and South Africa, are now considering the establishment of a single regulator.

⁴ Examples include the US Commodity Futures Trading Commission or the National Commission for Pension Funds in Mexico.

⁵ Good examples are Canada and the United States. In Canada securities activities are supervised by local securities authorities, whereas in the United States insurance companies are regulated by state supervisors. Moreover, in the United States, some state chartered banks are supervised by both state authorities as well as federal bank supervisory agencies.

Table 1. Countries with a Single Supervisor, Semi-integrated Supervisory Agencies and Multiple Supervisors in 2002*

Single Supervisor for the Financial System	Agency Supervising 2 Types of Fin. Intermediaries			Multiple Supervisors (at least one for banks, one for securities firms and one for insurers)
	Banks and securities firms	Banks and insurers	Securities firms and insurers	
1. Austria 12. Japan 2. Bahrain 13. Latvia 3. Bermuda 14. Maldives 4. Cayman 15. Malta Islands 16. Nicaragua 5. Denmark 17. Norway 6. Estonia 18. Singapore 7. Germany 19. South Korea 8. Gibraltar 20. Sweden 9. Hungary 21. UAE 10. Iceland 22. UK 11. Ireland	23. Dominican Republic 24. Finland 25. Luxembourg 26. Mexico 27. Switzerland 28. Uruguay	29. Australia 30. Belgium 31. Canada 32. Colombia 33. Ecuador 34. El Salvador 35. Guatemala 36. Kazakhstan 37. Malaysia 38. Peru 39. Venezuela	40. Bolivia 41. Chile 42. Egypt 43. Mauritius 44. Slovakia 45. South Africa 46. Ukraine	47. Argentina 62. Italy 48. Bahamas 63. Jordan 49. Barbados 64. Lithuania 50. Botswana 65. Netherlands 51. Brazil 66. New Zealand 52. Bulgaria 67. Panama 53. China 68. Philippines 54. Cyprus 69. Poland 55. Egypt 70. Portugal 56. France 71. Russia 57. Greece 72. Slovenia 58. Hong Kong 73. Sri Lanka 59. India 74. Spain 60. Indonesia 75. Thailand 61. Israel 76. Turkey 77. USA
As percent of all countries in the sample				
29%	8%	13%	9%	38%

* Sample includes only countries that supervise all the three types of intermediaries (banks, securities firms and insurers).

Source: How Countries Supervise Their Banks, Insurers, and Securities Markets. 2003. London, Freshfields.

As indicated in Table 2, there are numerous arguments in favor of and against integrated supervision. In this section, we review some of the main arguments on both sides.

Table 2. Arguments in Favor and Against Integrated Supervision

In Favor	Against
<ul style="list-style-type: none"> • Facilitates the supervision of financial conglomerates on a consolidated basis. • Allows better monitoring of issues affecting the entire financial system, as well as rapid policy responses. • Allows the development and implementation of a unified approach of regulation and supervision across the entire financial system, reducing regulatory arbitrage. • Strengthens accountability of supervisors. • Maximizes economies of scale and scope, contributing to a better use of resources. 	<ul style="list-style-type: none"> • The merger process may result in lower supervisory effectiveness during transition period and possibly beyond. • It may undermine the overall effectiveness of supervision by not recognizing the unique characteristics of the banking, securities and insurance industries. • There are other schemes to achieve prompt information-sharing and collaboration among existing agencies. • May only work in certain countries and may be more suited for developed financial systems. • Gains in terms of economies of scale may not be significant.

1.1 Arguments in Favor

Some authors argue that, to be effective, the structure of supervisory agencies needs to mirror the structure of the industry it supervises (R. Abrams and M. Taylor, 2000). If a country's financial system evolves towards a model of universal banking, in which banks are allowed to offer a large variety of financial products and services with few restrictions, then there may be good reasons for adopting integrated supervision instead of having multiple agencies monitoring different segments of the financial system.

In the last years, market developments have made it more difficult to supervise the financial sector through separate agencies. Supervisors face difficulties in classifying some of the new financial products under the traditional categories of banking, securities or insurance. Nowadays, practitioners increasingly treat loans, securities and insurance policies as part of a continuum of products that do the same thing: price risks. In many countries, for instance, insurance companies are allowed to offer short-term deposit-like products. Moreover, new types of securities products, such as credit derivatives, bear in practice many of the characteristics of an insurance product. Furthermore, the securitization of traditional forms of credit (such as mortgages, credit card receivables and commercial loans) and the proliferation of increasingly sophisticated ways of bundling, repackaging and trading risks, have weakened the distinction between equity, debt and loans (see Clive Briault, 1999, p. 12).

The blurring of distinctions between banking, securities and insurance products is raising concerns about the ability of authorities to effectively monitor the risks associated with these products. Questions have arisen as to the ability of multiple supervisors organized by type of intermediary rather than by type of risk to be responsive to the changes and to oversee the sector.

The growing number of financial conglomerates has also posed enormous challenges to national supervisory authorities, since risks have become more difficult to monitor, not just because financial institutions tend to be larger and more complex, but also because they operate in most segments of the financial system.

To respond to the above mentioned challenges, advocates of integrated supervision believe that a unified supervisory agency with authority over all, or most all financial intermediaries, can be more effective than multiple supervisors in monitoring risks across the financial system and responding to possible threats to the stability of the financial system. By bringing together or centralizing the supervision of a financial system in a single institution, the new unified supervisor:

- Can better understand and monitor risk transfers among different financial intermediaries and market segments.
- Can better assess the real and potential impact, on all sectors, of industry and market-wide issues affecting the financial system, such as turbulence in markets and economies, the development of e-commerce, the shift to low inflation, the implications of emerging demographic changes, etc.
- Can better understand the cross-sector nature of the business of financial conglomerates.
- Is better prepared to develop policies to address the risks affecting a financial conglomerate as well as its single entities.
- Is better prepared to develop a consistent supervisory approach to monitor similar financial products and services effectively regardless of what type of financial institution carries them out.

Moreover, from this point of view, a single or unified supervisor has several advantages over multiple supervisors, because it minimizes some of the problems that often arise when intermediaries are supervised by multiple agencies, such as:

- regulatory arbitrage,
- gaps in regulation and supervision,
- lack of coordination and communication between financial supervisory agencies, and
- weak accountability of supervisory agencies

A unified supervisory system seems to be better prepared to mitigate regulatory arbitrage, because it is better prepared to develop and apply regulations and supervisory processes consistently. In addition, the information available to the integrated supervisor can be more quickly and effectively utilized. Moreover, by becoming the only contact point for entities for all regulatory and supervisory issues, a single regulator becomes responsible in preventing gaps in regulation and supervision. Furthermore, a unified supervisor becomes accountable for its

statutory objectives. The blame cannot be passed from one supervisor to another if supervisory failure occurs.

There are other important arguments in favor of unification, such as the maximization of economies of scale resulting from merging two or more of the existing supervisory agencies. Economies of scale arise from the move to a single set of unified management, a unified approach to standard-setting, authorization, supervision, enforcement, and a single set of central support services, etc. Furthermore, the consolidation of human capital can increase efficiency by permitting management to direct the best people to the most critical situations. Moreover, integrated supervision can reduce the amount of information that financial intermediaries need to report to supervisory agencies. A unified supervisor becomes the only authority that requests information from financial intermediaries, mitigating duplications in the type of information that supervised entities have to report to different financial authorities, usually under different formats.

1.2 Arguments Against Integrated Supervision

An important argument against integrated supervision is that if the process of merging different agencies is not properly managed, it may result in the departure of experienced personnel and demoralization of other staff, affecting overall supervisory effectiveness during the transition period.⁶ Moreover, a mega-regulator may become excessively bureaucratic in its procedures, and slow to react to problems as they emerge.

There is also the risk that the effectiveness of supervision may be affected if the new integrated agency fails to develop a consistent framework of regulation and supervision for the financial sector. While a certain degree of harmonization of supervisory practices between the banking, securities and insurance supervisors is desirable to reduce regulatory arbitrage, it is important to recognize the particular characteristics of each industry, each one requiring specific regulations. A unified supervisor may fail to develop such a framework, affecting the overall quality of supervision.⁷ For instance, in the event the banking regulator -- accustomed to protecting depositors as well as the banking system -- assumes a dominant role in the integrated supervisory agency, it may not be prepared to supervise the securities industry properly. Moreover, there is the risk that an underdeveloped capital market may not be given sufficient flexibility to develop.

Another important argument against integrated supervision is that not all countries may be prepared to adopt it. If the supervision of financial markets is poor under separate entities, it will continue to be weak under a unified regime. Unless weaknesses in regulation and supervision are effectively addressed there may be little or no improvement. It might be wiser to address the weaknesses in supervision before discussing the number of agencies that should supervise a financial system.

For countries trying to improve the communication and collaboration among their different supervisors, integrated supervision may not always be the most appropriate way to achieve this.

⁶ See e.g. Goodhart (n 1 above).

⁷ It should be noted that countries with multiple supervisors may also fail to develop a unified approach to regulation and supervision.

There are other effective ways to achieve these objectives, such as special committees in which senior policy makers from different agencies regularly meet and share relevant information. Moreover, effective collaboration among agencies can also be achieved through Memoranda of Understanding (MOUs) which formalize arrangements for the exchange of information and policy coordination among entities. Furthermore, in certain cases, a country's legal framework may allow a supervisory agency to become the "lead" supervisor in key issues involving two or more agencies, such as the resolution of a failing financial conglomerate.

Finally, in some cases the economies of scale supposedly associated with the establishment of a unified agency may not be sufficient enough to justify the merger of the institutions.⁸

1.3 Forces Driving the Establishment of Integrated Supervisory Agencies

What are the main factors leading an increasing number of developed and developing countries to adopt integrated supervision? As shown in Table 3, the 15 countries that participated in this survey indicated several reasons for adopting integrated supervision, including, by order of importance, the following:

**Table 3. Main Reasons for Adopting Integrated Supervision
(% of Agencies that Indicated any of the Following Reasons)**

Reasons	N. of agencies	As % of all agencies
1. Need to better supervise a financial system moving towards universal banking.	14	93%
2. Maximize economies of scale and scope.	12	80%
3. Need to solve problems resulting from poor communication and a lack of cooperation among existing supervisory agencies.	4	27%
4. Minimize gaps in the regulation and supervision of financial intermediaries by establishing a single authority accountable for the supervision of all financial institutions.	3	20%
5. Need for operational restructuring of regulatory agencies (in particular, after a financial crisis).	3	20%
6. Overcome other weaknesses in the overall quality of financial regulation and supervision.	2	13%

Countries included: Australia, Canada, Denmark, Estonia, Hungary, Iceland, Korea, Latvia, Luxembourg, Malta, Mexico, Norway, Singapore, Sweden and the United Kingdom

Almost all countries covered in the survey indicated having adopted integrated supervision in response to the growing importance of financial conglomerates and blurring distinctions among

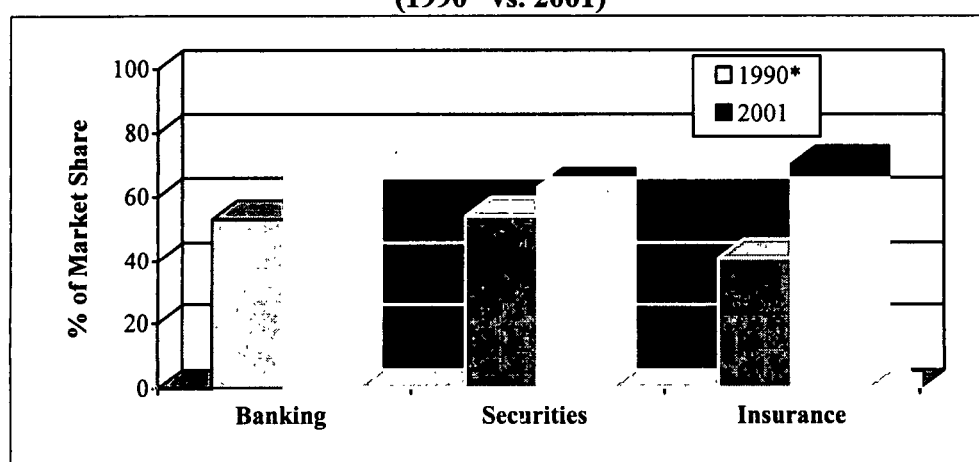
⁸ There is still not much evidence that the operating costs of new unified agencies are lower than the sum of its individual predecessor regulatory bodies. So far, few agencies, such as the FSA in the UK, have confirmed that their operating costs are lower. See: Clive Briault (2001): Building a Single Financial Regulator. Paper prepared for the Conference on "Challenges for Unified Financial Supervision", 2-3 July 2001, Tallinn, Estonia.

some of the banking, securities and insurance products, which have made it more difficult for countries to supervise their financial sectors through separate agencies.

In practically all countries covered in this survey, the financial sector industry has undergone major changes in recent years. Deregulation, liberalization and rapid technological innovation have allowed financial intermediaries to offer an increasing variety of financial products and services, making the traditional frontiers between banking, securities and insurance sectors blurred. Moreover, in order to remain competitive in the global marketplace, financial institutions have acquired or merged with other domestic or foreign financial intermediaries, giving rise to a large number of financial conglomerates.

As shown in Chart 1, on average, the market share of financial conglomerates operating in the banking, securities and insurance industries has rapidly increased in the last 12 years in the countries covered in this survey (market share measured as percentage of assets of financial intermediaries belonging to a conglomerate with respect to total assets of intermediaries in each industry).⁹ In the area of banking, the market share of conglomerates increased from 53 per cent in 1990 to 71 per cent at the end of 2001. During the same time period, the market share of conglomerates in the securities industry increased from 54 per cent to 63 per cent, and in the insurance industry from 41 per cent to 70 per cent (for a breakdown of figures by country, please see Annex 2).

**Chart 1. Average Market Share of Financial Conglomerates
in Banking, Securities and Insurance Sectors in Selected Countries
(1990* vs. 2001)**



*1990 or earliest available year (See Annex 2 for country breakdown).

Countries included: Australia, Canada, Denmark, Estonia, Hungary, Iceland, Korea, Latvia, Luxembourg, Malta, Norway, Singapore, Sweden, and the United Kingdom.

⁹ For the purposes of this paper, a financial conglomerate is defined as "any group of companies under common control whose exclusive or predominant activities consist of providing significant services in at least two different financial sectors (banking, securities, insurance)". Such an entity is likely to combine businesses which are subject to different schemes of supervision and might also include financial activities which, in many countries, are not conducted in an entity which is subject to solo prudential supervision (e.g. leasing, consumer credit, certain financial derivatives).

From a supervisory point of view, the growing importance of financial conglomerates poses enormous challenges, since risks become more difficult to monitor as the conglomerate grows and expands its activities across the different segments of a financial system, as well as to new markets overseas. On the one hand, recent research suggests that the trend towards conglomeration may increase systemic risks, even after taking account of the gains of diversification associated with conglomeration.¹⁰ On the other hand, supervisors face problems in calculating a financial conglomerate's overall solvency, since the conglomerate may artificially inflate a firm's capital base.¹¹ Monitoring intra-group transactions to ensure that risk is not concentrated in a single unit, and watching for or preventing conflicts of interests among the different firms that form a conglomerate becomes increasingly more difficult as the conglomerate becomes larger and more complex.

According to this survey, 12 out of 15 countries have adopted integrated supervision in order to maximize economies of scale and scope, thus reducing the operating costs of having several supervisory entities and centralizing in a single agency the functions of two or more agencies. This was a strong argument for the adoption of integrated supervision in practically all small economies covered in this survey, including Estonia, Iceland, Latvia, and Malta.

Another important reason for adopting integrated supervision has been the need to prevent gaps (as well as overlaps) in the regulation and supervision of financial intermediaries. In fact, one of the problems of supervising financial institutions through multiple agencies has been the existence of gaps or overlaps in the allocation of responsibilities among supervisors. In most cases, the lack of a precise definition of roles and responsibilities among entities has resulted in weak accountability. Thus, by creating a (fully or partially) unified supervisor for the financial system, countries have attempted to reduce the number of unregulated areas by giving a single agency the mandate to supervise most or the entire financial system.

Three of the 15 countries analyzed in the survey adopted integrated supervision in the aftermath of a major financial crisis. Mexico and South Korea, for instance, established integrated supervisors immediately after their financial crises erupted in December 1994 and November 1997, respectively. Sweden also established a single supervisor after its banking sector crisis in the early 80s. Other countries, such as Iceland, have adopted integrated supervision as part of a major effort to strengthen financial regulation and supervision by moving key responsibilities from the Ministry of Finance to a separate and autonomous agency.

Another important factor leading countries to adopt integrated supervision has been the need to overcome deficiencies in communication and cooperation among existing regulatory agencies. Reportedly, in 4 out 15 countries agencies had problems in communicating and sharing relevant information promptly. Countries such as Mexico did make several attempts to create effective mechanisms for information sharing and policy coordination among their different supervisory

¹⁰ Gianni de Nicoló and Myron Kwast (2002): Systemic Risk and Financial Consolidation. Are They Related? IMF Working Paper, WP/02/55.

¹¹ A common technique is "double or multiple gearing", i.e. counting the same capital twice in different entities within the group. Another is "downstreaming" of capital, where a company issues debt and uses the proceeds as equity for its subsidiaries.

agencies. However, as the banking crisis erupted at the end of 1994, authorities decided to merge two of the main existing agencies, the National Banking Commission and the National Securities Commission, instead of continuing exploring other mechanisms to improve communication and coordination among them. This was considered a way to ensure better supervision.¹²

II How Powerful Are the Integrated Supervisory Agencies?

People normally think of integrated supervisory agencies as “mega-supervisors”, that is as agencies with a broad mandate to supervise all types of financial intermediaries, enforce existing laws and regulations, and issue or amend key prudential rules affecting the entire financial system.

At first glance, most of the unified agencies analyzed in this survey seem powerful, because they have the authority to supervise multiple financial intermediaries, including banks, securities firms, insurance companies and other types of financial intermediaries. As shown in Table 4, 11 out of the 15 countries analyzed here have established a single supervisor for the entire financial sector industry and only four countries have opted for a partially unified agency, including Australia and Canada where the securities industry is supervised by separate entities, and Mexico and Luxembourg, where the insurance companies have a separate supervisor. Except for Singapore, which decided to concentrate the powers to regulate and supervise the entire financial system in the central bank, all other countries that have adopted integrated supervision have created a separate supervisory agency outside the central bank.

However, a careful analysis of the regulatory and supervisory powers these agencies have been granted reveals that not all of them are as powerful as they seem. In fact, the ministries of finance and central banks continue to play a key role in issuing and amending relevant prudential regulations, authorizing or revoking licenses to financial intermediaries, and establishing other important laws for the entire financial system.

¹² The experience of Mexico, however, should not suggest that adequate communication and coordination among supervisory entities can not be achieved, but rather that in some countries it may be difficult to find adequate mechanisms and institutional settings to achieve it.

Table 4. Financial Intermediaries Supervised by the Unified Agencies

Country	Name of Agency	Year of creation*	Intermediaries Supervised by the Unified Agencies				
			Banking	Securities	Insurance	Other NBFIs	Intermediaries NOT supervised by the agency
1. Australia	Australian Prudential Regulation Authority (APRA)	1997	X		X	X	Finance companies and merchant banks
2. Canada	Office of the Superintendent of Financial Institutions (OSFI)	1986	X		X	X	No
3. Denmark	Danish Financial Supervisory Authority (FINANSTILSYNET)	1988	X	X	X	X	No
4. Estonia	Financial Supervision Authority (FSA)	1999	X	X	X	X	Savings and loan associations and currency exchange offices
5. Hungary	Hungarian Financial Supervisory Authority (HFSA)	2000	X	X	X	X	No
6. Iceland	Financial Supervisory Authority	1988	X	X	X	X	Non-licensed collective investment firms
7. Korea	Financial Supervisory Service (FSS)	1997	X	X	X	X	Deposit and insurance activities of the Nat. Post Office, Community Credit Cooperatives and other.**
8. Latvia	Financial and Capital Market Commission	1998	X	X	X	X	Leasing companies
9. Luxembourg	Commission de Surveillance du Secteur Financier	1999	X	X			n.a.
10. Malta	Malta Financial Services Centre	2002	X	X	X	X	n.a.
11. Mexico	National Banking and Securities Commission (CNBV)	1994	X	X		X	Pension funds
12. Norway	Kredittilsynet	1986	X	X	X	X	No
13. Singapore	Monetary Authority of Singapore (MAS)	1984***	X	X	X	X	Credit cooperatives and leasing companies.
14. Sweden	Finansinspektionen	1990	X	X	X	X	No
15. United Kingdom	Financial Services Authority	1997	X	X	X	X	Mortgage advisers and general insurance brokers.****

* Refers to the year in which the decision to establish the agency was made or the law allowing its creation came into force.

**Also includes mutual aid businesses of the National Agricultural Cooperative Federation and National Federation of Fisheries Cooperative.

*** MAS took over the regulation of the insurance industry in 1977 and the regulatory functions of the securities industry in 1984.

**** Starting 2004, mortgage advisers and general insurance brokers will be under the supervision of the Financial Services Authority in the United Kingdom.

2.1 Regulatory and Supervisory Powers of Unified Agencies

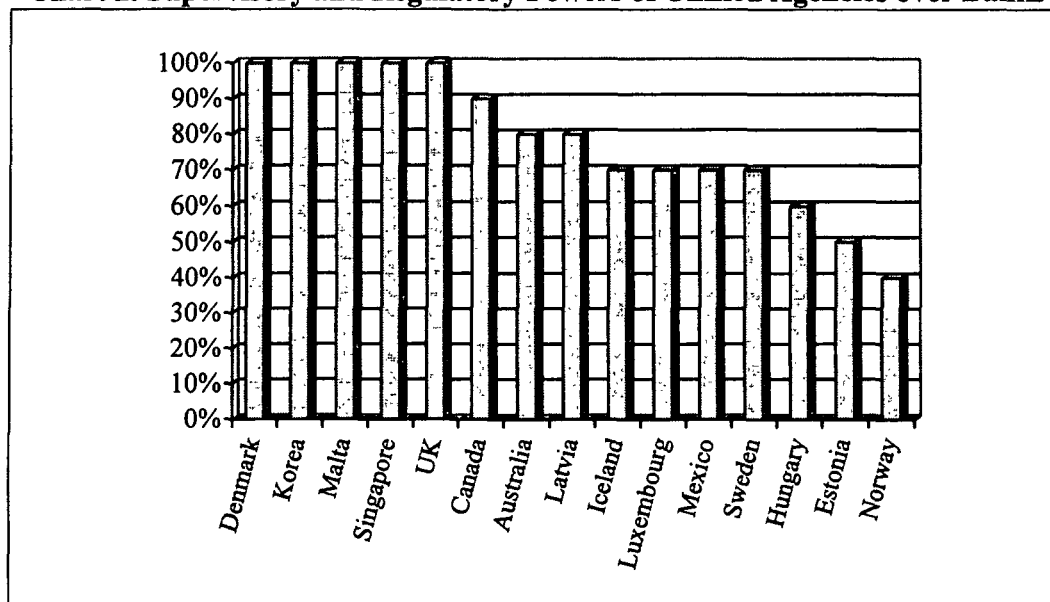
As part of this survey, all integrated agencies were asked to indicate which of the following 10 supervisory and regulatory powers they had been given and can use in the segments of the financial system they oversee:¹³

1. Conduct on-site examinations.
2. Conduct off-site examinations.
3. Impose sanctions and fines for non-compliance with rules and regulations.
4. Issue and amend prudential regulations on credit, market and liquidity risks.
5. Modify accounting and disclosure rules.
6. Set minimum capital requirements and, if deemed appropriate, require intermediaries to comply with higher requirements or grant them temporary suspension (regulatory forbearance).
7. Issue and amend rules on the composition of capital.
8. Set general licensing requirements.
9. Approve / revoke a license of an intermediary.
10. Resolve issues related to consumer protection.

As shown in Chart 2, the survey revealed that with regard to the banking industry, the industry supervised by all agencies of the countries covered in the survey, only five out of 15 countries have given their integrated agencies all 10 powers described above (Denmark, Korea, Malta, Singapore, United Kingdom). On the other side of the spectrum, Norway seems to have the most limited agency with only four out of the ten powers. The remaining countries have between five and nine of the listed regulatory and supervisory powers.

¹³ Agency may have many other powers that are not reflected in this list. For the purpose of this study, this list includes only the basic powers that an integrated agency with wide authority in the financial sector is expected to have.

Chart 2. Supervisory and Regulatory Powers of Unified Agencies over Banks



It is important to mention that the degree of concentration of regulatory and supervisory powers in a single agency is not necessarily correlated with the degree of supervisory effectiveness. The existence of unified agencies with few regulatory and supervisory powers means that other institutions, such as the Ministry of Finance and/or the central bank, continue to have important regulatory and supervisory powers in the country in question.

The survey also revealed that the powers of the unified agencies are basically concentrated in core supervisory functions, including the power to conduct on-site and off-site examinations, as well as the power to impose sanctions and fines on financial institutions and other market participants for non-compliance with existing laws and regulations. Practically all of the agencies covered in this survey reported having wide powers in these areas.

Table 5. The Powers of the Integrated Supervisory Agencies over Banks

Regulatory and Supervisory Powers	Number of agencies	As % of all agencies
1. Conduct on-site examinations	15	100
2. Conduct off-site examinations and surveillance	15	100
3. Impose sanctions and fines for non-compliance with rules and regulations	15	100
4. Set prudential regulations on market, credit, operational and liquidity risks	12	80
5. Set accounting rules and information disclosure requirements	11	73
6. Set rules on the composition of capital	11	73
7. Approve and revoke a license to a financial intermediary	11	73
8. Set minimum capital requirements	10	66
9. Set licensing requirements	9	60
10. Consumer protection (assist to resolve claims for abuses against users of financial services)	9	60

In terms of regulatory powers, 12 out of 15 of the agencies can set or amend prudential rules on credit, market and liquidity risks. In countries where the supervisor can not directly set or amend these prudential rules, it is normally the Ministry of Finance who has the prerogative to do it. Hungary is an interesting case, because the integrated supervisor was established without giving it any of the aforementioned regulatory powers. The Hungarian Financial Supervisory Authority was conceived as purely a supervisory entity. Setting or amending financial sector regulations in Hungary is the exclusive prerogative of the Ministry of Finance.¹⁴

As shown in the Table 5, 11 out of 15 agencies can directly set or change the accounting and disclosure rules applicable to financial institutions. In countries where the unified agency does not have this prerogative, such as Australia, there is normally an independent body, usually a professional association of accountants that is responsible for setting the rules. However, in practically all countries in which an independent entity is responsible for setting the accounting rules, the supervisory agency has the ability to request a review of accounting practices and influence changes in the desired direction.

The survey also revealed that 11 out of 15 agencies have powers to establish the rules on the composition of capital. Interestingly, only 10 agencies can set the minimum capital requirements that financial intermediaries must observe. In cases where the supervisor can not set this type of prudential rule directly, it is the Ministry of Finance that normally does so.

Similarly, nine out of 15 agencies have the power to set the minimum licensing requirements and 11 to approve or revoke a license to a financial intermediary. Traditionally, granting or revoking

¹⁴ Laws, however, grant the Hungarian Financial Supervisory Authority (HFSA) the right to express its opinion when laws affecting the financial system or the institutions and persons under its control are being prepared. Moreover, the President of the HFSA has the right to participate in government sessions on issues affecting the regulation and supervision of the financial system.

a license has been an important prerogative of the Ministry of Finance. The survey confirmed that this practice continues in four of the countries that have adopted integrated supervision, including Iceland, Luxemburg, Mexico and Norway.¹⁵ In the countries where the Ministry of Finance is responsible for granting or revoking licenses, the supervisor plays a key role in advising the Ministry of Finance on the moral integrity and technical expertise of the prospective owners and managers, and in assessing the feasibility of the proposed business plans of the prospective new financial institutions.

Interestingly, in six countries, including Australia, Canada, Latvia, Mexico, Norway and Sweden, the integrated supervisory agency is not empowered to handle and resolve consumers' complaints against financial institutions. In those countries, consumer protection issues are normally handled by judicial authorities whenever users of financial services can not reach a satisfactory agreement with financial institutions. In 1999, Mexico established a separate agency to prevent abuses by financial intermediaries and to resolve any type of consumers' claims in the financial sector industry.¹⁶

In summary, the survey revealed that the group of unified supervisory agencies covered in this survey is not as homogenous as it seems at first sight. On the one hand, there is a group of single supervisors with wide regulatory and supervisory powers over the intermediaries they supervise (Denmark, Korea, Malta, Singapore, and United Kingdom). On the other hand, there is second group of single supervisors with limited regulatory powers (Estonia, Hungary, Iceland, Latvia, Norway and Sweden). Finally, there is a third group of partially unified agencies that only supervise 2 of the 3 main sectors in the financial system (Australia, Canada, Luxembourg and Mexico).

As a group, the unified supervisory agencies tend to have wide powers to supervise the financial system, but less to regulate it. In many countries, the Ministry of Finance continues to play an important role in setting the key prudential rules, including risk management and solvency requirements. Moreover, in several countries, the approval or revocation of licenses still remains the prerogative of the Ministry of Finance. Finally, several agencies lack the powers to resolve consumer protection issues.

III. Harmonizing Regulatory and Supervisory Processes Across the Financial System

In countries that have adopted integrated supervision, as well as in countries with multiple supervisors, a certain degree of harmonization of supervisory and regulatory practices between the banking, securities and insurance supervisors is desirable to prevent regulatory arbitrage and make sure that similar risks are measured using consistent parameters and methodologies, regardless of the type of financial intermediary that has undertaken them.

¹⁵ Interestingly, Kredittilsynet of Norway has the power to approve and revoke licenses for intermediaries in the securities market, i.e. investment firms and asset management funds, and also for insurance brokers.

¹⁶ See the National Commission to Protect and Defend the Users of Financial Services: www.condusef.gob.mx.

This implies moving away from an institutional type of regulation, in which several agencies monitor the risks incurred by each type of financial intermediary, to functional regulation, in which the supervisory agencies (or the unified supervisor) monitor the risks associated with financial operations and activities arising at single institutions, as well as financial groups and the entire financial system.

In countries that have adopted integrated supervision, failure to develop a unified regulatory and supervisory framework for the financial sector is likely to prevent the integration of former supervisory agencies. In fact, a unified agency may easily become a simple umbrella providing just a common name to all former supervisory agencies, but allowing each of them to operate with the same regulatory and supervisory approaches as before.

As discussed below, more work is needed by international standard-setting bodies in the financial sector in order to determine the areas in which harmonization of regulatory and supervisory practices across different types of financial intermediaries could and should be achieved. The discussion of this issue is beyond the purpose of this paper. In this section we try to provide a brief indication of the existing degree of harmonization of regulatory and supervisory practices in the group of countries that has adopted integrated supervision. Agencies were asked to assess by themselves the degree of harmonization in the following seven areas:

1. On-site supervision
2. off-site monitoring and analysis
3. consolidated supervision
4. components of capital
5. minimum capital requirements
6. licensing requirements
7. accounting standards

The following sections summarize the countries' responses with respect to their progress in harmonizing regulatory and supervisory practices applicable to banks, securities companies and insurers.¹⁷ First we compare the degree of regulatory harmonization between banking and securities sectors. Then, we compare the degree of regulatory harmonization between the banking and insurance sectors.

¹⁷ Given the limitations of any survey as an analytical tool, the results should be taken cautiously, especially because no detailed review of current regulatory and supervisory practices was conducted to validate the results. The results of this survey should be seen as an indication of what countries think of themselves in terms of progress in harmonizing regulatory and supervisory practices applicable to their different types of financial intermediaries.

3.1 Integrating Banking and Securities Supervision

As shown in Table 6, there seems to be a high degree of integration between banking and securities supervision in the countries covered in the survey. The average level of integration, measured through an index formulated on the basis of the responses of countries to question 4.6 of the questionnaire (please see Annex 1), indicates a degree of integration of 73 per cent, in a scale ranging from 0 per cent (no integration at all) to 100 per cent (full integration). The areas of higher integration include accounting rules and off-site monitoring and analysis, both with a degree of integration of 79 per cent. The areas with less integration between banking and securities supervision include minimum capital adequacy requirements and requirements for licensing, with a degree of 69 per cent and 63 per cent of integration, respectively.

**Table 6. Harmonization between Banking and Securities Supervision
as of Dec. 2001**

Variables	Index
1. Accounting rules	79%
2. Off-site monitoring and analysis	79%
3. Consolidated supervision	76%
4. Components of capital	73%
5. On-site supervision	72%
6. Minimum capital adequacy requirements	69%
7. Licensing requirements	63%
Average	73%

Countries included in the sample: Denmark, Estonia, Hungary, Iceland, Korea, Latvia, Luxembourg, Malta, Mexico, Norway, Singapore, Sweden, and the United Kingdom.

In most countries covered in the survey, the accounting principles used for the valuation of securities tend to be similar for both banks and securities firms. There are, however, some differences in the accounting treatment used in both types of intermediaries with regard to the adjustments required when computing the net adjusted capital of securities companies. In Singapore, for example, securities firms have to calculate adjusted net capital after deducting investments in subsidiaries and associated companies. Banks calculate their capital adequacy ratio at the group level by consolidating the value of such investments net of goodwill and treating them as risk-weighted assets.

Off-Site, On-Site, and Consolidated Supervision

Most countries reported a high level of consistency in their practices for off-site supervision of banks and securities firms.¹⁸ Reportedly, most integrated agencies utilize similar procedures for collecting data from banks and securities companies. In fact, in some countries, such as the UK, a single financial reporting framework has been recently introduced to collect information from

¹⁸ The survey covers only issues related to the supervision of securities firms. The scope of securities supervision is broader. Besides securities firms, securities supervisors monitor securities markets, exchanges, collective investment schemes and disclosure by issuers.

both types of intermediaries. Moreover, countries use similar stress tests and other analytical tools to assess the financial situation of banks and securities companies and their compliance with prudential ratios. Similarly, the approaches to on-site supervision of banks and securities firms tend to be highly consistent in most countries covered in this survey. Reportedly, examiners of banks and securities firms use the same manuals to assess credit, market and operational risks, as well as corporate governance issues.

Overall, countries indicated that, to the extent permitted by existing internationally accepted standards for bank and securities supervision, they will continue to work towards achieving further harmonization in the supervision of these two types of intermediaries. Some of the agencies, such as the United Kingdom and Korea, indicated they are in the process of creating a common framework for both on-site as well as off-site supervision for all financial intermediaries.

With the exception of Mexico, all countries covered in this survey supervise banks and their affiliated entities both on an individual as well as on a consolidated basis, following the Basel Committee's Core Principles for Effective Bank Supervision. In fact, the mere existence of a single supervisor in most of these countries enables supervisors to have access to information on bank and non-bank activities undertaken by the bank and its affiliated entities.

In the European Union (EU), financial groups that do not contain a bank are exempted from consolidated supervision. Reportedly, many other non-EU members analyzed in this survey follow the same approach. This is consistent with the Core Principles of the International Organization of Securities Commissions (IOSCO) which do not prescribe consolidated supervision for securities firms.¹⁹ Singapore and Korea constitute two exceptions to this approach. In Singapore, all regulated entities – including securities firms -- that have substantial holdings in other financial companies must be supervised on a group-wide basis. In Korea, securities firms are supervised only on an unconsolidated basis, but authorities are planning to introduce consolidated supervision for this type of intermediary in the near future.²⁰

Components of Capital, Minimum Capital Requirements and Licensing

Another area in which a high degree of regulatory consistency has been achieved between banking and securities is on the components of capital for capital adequacy purposes. Members of the European Union lead the group of countries with higher consistency in this area. This is due to the fact that recent EU legislation has significantly harmonized capital and other

¹⁹ Although IOSCO principles do not prescribe consolidated supervision, they recommend supervisors to obtain information about the activities of a broker-dealer and its affiliates. Moreover, IOSCO core principles state that supervisors need to obtain information about licensed and off-balance sheet affiliates of supervised entities. IOSCO core principles are available at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD82-English.pdf>

²⁰ The FSS in Korea has been shifting its supervisory emphasis to consolidated supervision since 1999. The FSS revised the regulation on the management evaluation of securities companies in February 2002 to perform evaluations on a consolidated basis.

prudential requirements for banks and securities firms.²¹ The new EU legislation adopted the Bank for International Settlement (BIS) rules for banking, extending the key principles of the Basel Capital Accord to securities firms.

However, important differences arise with regard to capital adequacy requirements between banking and securities firms in some of the countries covered in this survey. In several countries, non-current assets are deducted from the capital of securities companies. Other differences arise with regard to the frequency of reporting capital adequacy to the supervisor. In general, securities companies are required to report their capital adequacy more frequently (normally on a monthly basis) than banking intermediaries (normally on a quarterly basis).

The survey also revealed that the criteria for licensing for banks and securities companies tends to be different in many of the countries covered in the survey. This is due to the fact that in some countries banks are required to be licensed, but securities companies are not. In many countries, e.g. Iceland, securities companies are required to register with the supervisor but they do not need a license. Moreover, the evaluation of management tends to play a bigger role in licensing securities companies, whereas good capital and prudential standards are seen as more important in the licensing of banks.

3.2 Harmonization Between Banking and Insurance Supervision

The degree of integration between banking and insurance supervision seems to be lower than the degree of harmonization reached between banking and securities supervision. As shown in Table 7, the combined index of harmonization between banking and insurance shows a degree of harmonization of 56 per cent, as compared to an index of 73 per cent of harmonization between banking and securities.

**Table 7. Harmonization Between Banking and Insurance Supervision
as of Dec. 2001**

Variables	Index
1. Consolidated supervision	72%
2. Off-site monitoring and analysis	69%
3. On-site supervision	67%
4. Licensing requirements	64%
5. Accounting rules	50%
6. Components of capital	42%
7. Minimum capital adequacy requirements	28%
Average	56%

Countries included: Australia, Canada, Denmark, Estonia, Hungary, Iceland, Korea, Latvia, Malta, Norway, Singapore, Sweden, and the United Kingdom.

The highest degree of harmonization between banking and insurance has been achieved in the core areas of supervision, including consolidated supervision, as well as on-site and off-site

²¹ See EU Directive on Financial Conglomerates approved in 2002:
http://europa.eu.int/comm/internal_market/en/finances/financonglom/index.htm.

supervision. In each of these three areas, countries reported an average degree of integration of 72 per cent, 69 per cent and 67 per cent, respectively. With regards to the requirements for licensing and accounting rules, the average degrees of harmonization were 64 per cent and 50 per cent, respectively. The areas in which far less integration has been achieved between banking and insurance supervision include the definition of components of capital, as well as the minimum prudential capital requirements that intermediaries must observe; in these two areas, the degree of harmonization was just 42 per cent and 28 per cent, respectively.

On Site, Off-Site and Consolidated Supervision

Most of the countries reported a high level of consistency in their practices for on-site supervision of banks and insurance companies. Even those countries that indicated a degree of harmonization below the group's average, such as Latvia and Malta, have reported that they are currently working on achieving a higher degree of consistency for on-site supervision between banks and insurance companies.

Similarly, countries reported a relatively high level of consistency in the off-site monitoring of banks and insurance firms. The average index was 69 per cent. Although only a few countries have launched a comprehensive supervisory framework applicable to both banks and insurance companies, including the UK and Canada, practically all countries are currently improving procedures for monitoring risk management effectiveness in banks and insurance companies.

With regard to consolidated supervision, most countries supervise banks and insurance companies on both an individual and a consolidated basis, if the intermediary is affiliated with a financial group. There are, however, some exceptions. In Australia, Korea and Sweden, for instance, insurance companies are only supervised on an unconsolidated basis. Reportedly, these countries are planning to move to consolidated supervision for those institutions in the future.²²

Licensing

According to this survey, the average degree of consistency in the type of requirements a financial institution must meet to operate as a bank or an insurance company is 64 per cent, indicating only a moderate degree of harmonization. This is in part because the power to grant a license is not always in the hands of the regulator, but lies in the Ministry of Finance. Interestingly, in countries where licensing powers have been transferred to the regulators, such as in the United Kingdom, there is a high degree of harmonization of criteria.

Most countries covered in this survey are making efforts to homogenize the criteria for licensing financial institutions, including the minimum capital, the technical skills and moral integrity of prospective managers, as well as the criteria for assessing the viability of the business plan. Some countries have accomplished certain degree of consistency in the licensing process through legislation where others are doing so through administrative procedures.

²² In Korea, for instance, the FSS evaluates the solvency ratio of insurance companies on a consolidated basis. Management evaluation is not yet performed on a consolidated basis in Korea. The FSS is planning to take supervisory actions against the insurance companies on a consolidated basis in the near future.

Accounting Rules

With regard to accounting rules, there is only modest harmonization of standards that banks and insurance companies have to follow. Most countries report important differences in the accounting practices applicable to both types of intermediaries. Key differences arise in the valuation of real estate assets, securities, reserve for losses on assets, and valuation of deposit-like products.

In Sweden, for instance, insurance companies have the option to choose between fair value and historical cost as valuation principles for real estate assets and securities, whereas banks may not use fair values. With regard to reserve for losses on assets, practices also vary within countries. In Singapore (as well as in most countries), for instance, banks are required to classify loans and investments with principal or interest payments three months or more in arrears and set aside specific provision for such impaired assets. In the case of insurance companies, there is only a general provision that requires insurers to provision for doubtful debts and premiums that are past due, but the provisioning levels are not aligned between banking and insurance regulation. Reportedly, many countries are currently reviewing the reserve rules for insurers.

In most countries, bodies other than the regulators control the accounting standards. Accordingly, the pace of harmonization is not entirely under their control, although they do influence developments. Many countries are working to ensure that accounting standards are in line with the International Accounting Standards of the International Accounting Standards Committee (IASC).

As the lines between the activities of traditional bank and insurance firms become less clear, it can be foreseen that differences in accounting will have to be dealt with. Accounting standards harmonization across industry types is, therefore, dependent on international initiatives in this area.

Components of Capital and Minimum Capital Adequacy Requirement

According to the results of the survey, countries seem to have achieved only a modest level of consistency with regard to the definition of regulatory capital for banks and insurance companies, as well as the minimum capital requirements that intermediaries must comply with. The average degree of harmonization in these two areas was only 42 per cent and 28 per cent, respectively.

In the case of the definition of regulatory capital for banks, practically all countries follow the risk-based approach contained in the Basel Capital Accord, whereas in the case of insurance companies, the type of components of capital that firms need to observe for capital adequacy purposes varies from country to country. Besides the traditional concepts of “core capital”, the capital of insurance companies is also composed of several elements derived from the type of particular risks faced by insurance firms, such as the “future risk reserve” or the “catastrophe reserve” in Japan or the “policy-holder dividends” and “policy reserves” in Korea. Canada is the

only country in this group that reports a highly consistent definition of capital between banks and insurance companies.

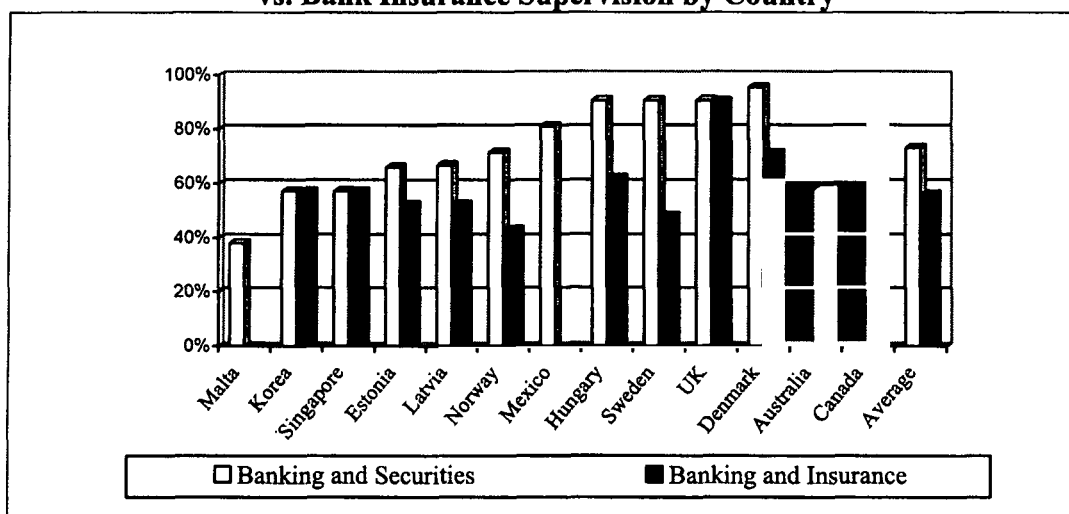
Currently, most countries are reassessing their definitions of capital for both banks and insurance firms in light of recent international developments. Some countries, e.g. Singapore and the United Kingdom, are planning to move to a risk-based approach for insurance companies in the future. As part of the efforts to achieve higher harmonization in this area, the United Kingdom is planning to introduce a list of eligible capital items in its new supervisory handbook from 2004, while preserving some differences between banks and insurers.

With regard to the minimum capital adequacy requirements that banks and insurance companies have to observe, less harmonization has been achieved and, apparently, there is also limited scope for further harmonization in the future. As mentioned above, all countries require banks to follow the BIS capital ratio. In the case of insurers, European countries follow the EU's solvency margin system. Most countries outside the EU area have voluntarily decided to follow the EU directive in this regard, thus making the appropriate distinctions between the individual types of risk specific to insurance business (e.g. mortality risk, morbidity risk, lapse risk, asset default risk and interest margin pricing risk, and catastrophe risk for non-life insurance firms, among others). Although most countries indicated that they would be striving for more consistency in the capital adequacy requirements between banking and insurance firms, consistency will be clearly limited by the differences in the underlying businesses and by future developments and convergence of internationally accepted prudential standards for banks and insurance companies.

3.3 Integration of Banking and Securities Supervision vs. Banking and Insurance Supervision

Chart 3 compares the degree of integration between banking and securities supervision versus banking and insurance supervision by country.

**Chart 3. Integration of Bank and Securities Supervision
vs. Bank Insurance Supervision by Country**



According to the results of this survey, countries that have adopted integrated supervision believe they have achieved a higher degree of integration between banking and securities supervision (73 per cent on average) than between banking and insurance supervision (56 per cent on average). Interestingly, there is practically no country in this survey that has achieved a higher degree of consistency between banking and insurance supervision than between banking and securities supervision.

Does it mean it is easier to integrate bank and securities supervision than bank and insurance supervision? This question, unfortunately, can not be answered based upon the data gathered through this survey. A study with a different type of methodology as well as a larger sample of countries would be needed to provide a satisfactory answer to this question.

In any case, the survey did reveal that despite the evident progress made by some countries in integrating regulatory approaches in banking, securities and insurance, most countries still have a long way to go in terms of harmonizing regulations and supervisory practices. A major challenge for countries is how to evaluate the capital adequacy of financial conglomerates when the capital tests are different for each sector. Similarly, authorities still face problems in assigning an overall rating to a financial conglomerate where each sector is rated based on different factors.

One of the main risks of *not* unifying regulatory and supervisory processes in integrated agencies is that former specialized agencies will continue to operate separately, each one applying their own approach to regulation and supervision, and with limited policy coordination among themselves. In the absence of regulatory and supervisory integration, unified agencies may become a simple umbrella providing physical room for former agencies, each one continuing to operate in its own way. Failure to unify the supervisory framework applicable to financial intermediaries may result in a false sense of comfort. The risk is that governments may feel that supervisory arbitrage has been minimized just by merging the pre-existent supervisory agencies when in reality no real change has taken place.

In their efforts to achieve consistency among the regulatory and supervisory approaches to each type of financial intermediary, authorities need to take into account the fundamental differences between business activities. In many cases, consistency may not be appropriate. Basic institutional differences must be recognized. Finding the right balance between consistency of regulatory approaches and the need to recognize the unique characteristics of each type of financial intermediary is perhaps one of the biggest challenges faced not only by countries that have adopted integrated supervision, but also by countries that operate with multiple supervisors that attempt to minimize regulatory arbitrage by ensuring that similar risks are measured under consistent parameters and methodologies, regardless of the type of financial intermediary that has undertaken them.

Finally, it is important to mention that further harmonization of prudential standards across segments of the financial system will largely depend on the convergence of international standards for banks, securities companies and insurers, since most countries prefer to adjust their regulation and supervision to internationally accepted standards.

In 2001, the “Joint Forum,” a working group including representatives from banking, securities, and insurance supervisors, issued a report comparing the Core Principles for the supervision of banks, insurers and securities firms issued by their respective standard setting bodies (Basle Committee on Bank Supervision, International Organization of Securities Commissions, and International Association of Insurance Supervisors).²³ Although the report did not find any significant contradictions between the three sets of Core Principles, it identified several divergences in key areas, such as the definition of regulatory capital, the requirements for capital, and the definition and treatment of various types of risks. Certainly, more work is needed to identify the areas in which consistency of regulatory and supervisory practices across sectors could and should be achieved.

At this stage, the absence of harmonized prudential standards in several areas at the international level may become an obstacle to further harmonization of financial sector rules in individual countries.

IV Complexity of Integrating Supervisory Agencies

This section discusses some of the practical problems faced by policy-makers in unifying different supervisory agencies, and draws some lessons from the data that may be valuable for countries planning to adopt integrated supervision. The agencies that participated in this survey identified some important obstacles that they faced during the phase of transition from multiple supervisors to a single (or partially) unified supervisor, sharing some of the important lessons they have learned in adopting integrated supervision.

²³ For a comparison of international standards for the supervision of bank, securities and insurance firms, see: BIS (2001): Core Principles: Cross Sectoral Comparison. The Joint Forum. November 2001. Available at: <http://www.bis.org/publ/joint03.pdf>

Table 8. Problems in Establishing Integrated Supervisory Agencies

Problem	N of agencies affected	As % of total agencies
1. Legal constraints (need to amend a number of pieces of financial sector legislation).	10	67%
2. Departure of experienced personnel.	9	60%
3. Delays in integration of IT systems and infrastructure of merged agencies	8	53%
4. Demoralization of staff of the merged entities.	8	53%
5. Lack of mission and clarity in the newly merged institution.	2	13%
6. Budgetary problems (insufficient funds to complete the integration of agencies).	2	13%

Countries included: Australia, Canada, Denmark, Hungary, Iceland, Korea, Latvia, Luxembourg, Malta, Mexico, Norway, Singapore, Sweden and the United Kingdom.

As shown in Table 8, countries have faced several types of obstacles as they moved to complete the adoption of an integrated supervisory system. Some of these have included legal constraints and the need for new laws to be enacted, departure of experienced personnel, demoralization of staff, and problems and delays in the integration of IT systems and other infrastructure systems of the merged entities. Reportedly, in a few countries integrated agencies have faced a lack of mission and clarity during their early years of existence as well as serious budgetary problems affecting their ability to operate properly.

4.1 Legal Constraints

In most countries, the establishment of a unified supervisory agency has required the review and amendment of a large number of financial sector laws and regulations to enable the new entity to fulfill its functions effectively across the financial system. In fact, it is not surprising that some countries (such as the United Kingdom) have gone beyond the amendment of existing laws by replacing a number of sector-specific laws with a single piece of new legislation.²⁴

The law needs to define the mission, objectives, powers and scope of responsibilities of the new unified agency. Moreover, in accordance with best international practices (as defined in Core Principles for Bank, Securities and Insurance Supervision, respectively), it should also provide for autonomy and legal protection for the staff of the new entity for decisions and actions made in good faith, and establish the mechanisms to ensure proper accountability of the new entity.

However, as shown in Table 8, nine out of 14 agencies covered in this section of the survey reported experiencing problems associated with an outdated or inadequate legal framework at least during the first three years of existence. Some of the problems faced by these agencies included legal ambiguity with regard to their sources of funding, ownership of assets, power to endorse treaties with foreign counterparts, power to impose sanctions against market participants, and the power to issue and amend prudential regulations. In addition, in a few countries the staff of the unified agencies were not legally protected and the existing laws did not specify the mechanisms to ensure proper accountability of these agencies.

²⁴ We are referring to the Financial Services and Markets Act, which was passed by the UK Parliament in June 2000 and came into force on 1. Dec., 2001.

These types of legal problems affected the capability of agencies to fulfill their responsibilities properly at least during their first years of operation. In this sense, it is important that laws be updated before or shortly after the new agency has been established to avoid weaknesses that may undermine the effectiveness and credibility of the new institution.

4.2 Departure of Experienced Personnel and Demoralization of Staff

An unintended consequence of the unification of supervisory agencies has been the voluntary departure of experienced personnel of the merging institutions. Nine out of 14 agencies analyzed in this section of the survey reported the departure of valuable personnel as a result of the uncertainty created by the merging process.

Another related problem has been the demoralization of the staff of the merged entities during and after the unification process. Fifty per cent of the agencies analyzed in this survey have been affected by this type of problem. Many staff viewed the unification process with uncertainty not just because of the possible redundancies, but also because of the delays in configuring the definitive structure of the unified institution, appointing or ratifying the new heads of the departments and setting the overall conditions of employment.²⁵

4.3 Managerial Issues

The process of merging two or more supervisory agencies is a major managerial challenge, because each of the agencies has its own identity and in most cases – a well-established organizational structure and corporate culture. Moreover, each of the agencies has its own approach to regulation and supervision, and operates with its own tools and procedures in monitoring a particular type of financial intermediary and ensuring compliance with laws and regulations.

The management challenge of merging a number of different regulatory agencies should not be underestimated. If the unification process is not managed appropriately, there is the risk that it can go off track. Besides the problems related to loss of experienced personnel and demoralization of staff mentioned above, several agencies reported additional problems. These related to difficulty in developing a comprehensive plan to conduct the merger, integrate IT systems and other essential infrastructure elements of the merged entities. There were also some problems in attaining the economies of scale by downsizing the number departments and personnel of the merging institutions, even when there was a clear duplication of functions. Moreover, as indicated in the Table 8, two agencies covered in the survey faced budgetary constraints, as well as various problems in defining their:

²⁵ Reportedly, the agencies that have completed the transition phase from multiple to a single supervisor, such as the FSA in the UK, have become much more attractive employers than the former regulators, so recruitment has been easier. See, Clive Briault (2001): Building a Single Financial Regulator. Paper prepared for the Conference on “Challenges for Unified Financial Supervision”, 2-3 July 2001, Tallinn, Estonia.

- mission and overall objectives;
- business plan and work program;
- new organizational structure with clear responsibilities for each unit; and
- responsibilities of senior staff.

When a country decides to adopt integrated supervision, it should define what exactly it is trying to achieve and how. As this paper has shown, an integrated supervisory agency can take different forms. Authorities may want to adopt either a partial scheme of integrated supervision (by merging only two of the main agencies) or a full one (by merging all supervisory agencies and creating a single supervisor for the financial system). Moreover, authorities may want to grant to the new agency either a full or only a limited set of powers to regulate and supervise the financial system, keeping important powers, such as license authorization / revocation, at the ministry of finance, central bank or other agencies.

Another important consideration is how far a country plans to go in harmonizing regulatory and supervisory practices across intermediaries. On the one hand, the new integrated agency may want to have its main departments organized on the basis of functional regulation, each department devoted to specific functions across all intermediaries. On the other hand, the new agency may want to organize its departments according to the type of financial intermediaries it supervises.

One of the most difficult tasks of unifying regulatory agencies is to strike an appropriate balance between the different objectives of regulation. Given the diversity of these objectives -- ranging from preventing systemic risk to protecting the individual consumer from fraud -- it is possible that a single regulator might not have a clear focus on the objectives and rationale for regulation, and might not be able to adequately differentiate between different types of institutions. Moreover, a poor definition of the objectives of the new entity may provide little guidance for the regulator when its different objectives come into conflict.

Table 9 compares the average timeframe required by this group of countries to complete certain activities related to the merger of their supervisory agencies. The time is counted from the time the decision to merge the entities was announced.

Table 9. Time Required to Carry out Key Integration Activities

Tasks	Average Number of Years
1. Set the definitive organizational structure of the new merged entity.	2.0
2. Set in the legal framework the scope of legal powers, responsibilities and goals of the new regulatory agency.	1.5
3. Set the strategic (business) plan of the new entity describing its objectives, strategies and actions needed to achieve them.	1.2
4. Integrate the IT systems of the merged entities.	1.1
5. Reallocate personnel and define new roles.	0.9
6. Integrate budgetary processes.	0.8
7. Appoint (confirm) the heads of the new departments of the merged entity.	0.7

Countries included: Australia, Canada, Denmark, Hungary, Iceland, Korea, Latvia, Malta, Mexico, Norway, Sweden, and United Kingdom.

Clearly, the completion of this set of key activities required to facilitate the merger of two or more institutions has taken on average between one and two years. Countries agreed that, whenever possible, these types of activities should be carried out rapidly to minimize uncertainty of staff of the merging entities and disillusionment with regard to the integration process.

Moreover, where the establishment of a single integrated agency is one of several steps to improve the overall quality of financial sector supervision of a country, it is important that the merger process occurs rapidly so that it can generate the necessary “reform culture” and facilitates the rapid implementation of further reforms in the financial sector.

4.4 Other Issues

Countries pointed out that an important risk of establishing integrated agencies is that one approach of supervision may prevail over the other types. This may happen when one particular type of financial intermediary – usually commercial banks — dominates the financial sector. This type of problem is likely to arise when one of the merging agencies – normally the banking supervisor -- has a disproportionate number of staff, resources and facilities, as compared with the other supervisors, making the merger process appear to be a “takeover” of small supervisory agencies by a large entity rather than a process of integration between two or more supervisory agencies.

If not properly managed, this type of situation may result in rapid setbacks in the quality of supervision of the non-bank financial intermediaries in a country, since the new integrated agency may focus its resources in the most important type of intermediary, usually banks, at the expense of the others.

In addition, several agencies emphasized the importance of communicating to the market the objectives, policies and tools of the new institution. An important element for the success of the integrated agency is that all market participants understand the rationale for creating a unified supervisor and are willing to cooperate with it in maintaining financial sector stability. Countries also emphasized the importance of establishing a clear framework that delineates the roles and

responsibilities of the unified supervisor, the ministry of finance and the central bank, so that market participants understand the scope of responsibilities and accountability of the new supervisor.

Another important issue is that the integration of supervisory agencies preferably should be undertaken when the financial system is stable, allowing management more scope to adequately address the many complex issues associated with organizational change. Trying to make organizational changes at a time when the financial sector is also experiencing difficulty (and management time needs to be directed to the basic supervisory tasks) should be avoided if possible.

V Conclusions

This paper summarizes the results of a survey carried out in a group of 15 developed and developing countries that have decided to merge some of or all of their agencies responsible for supervising banks, securities firms, insurance companies, and other types of financial intermediaries. The survey analyzed the reasons for adopting integrated supervision in these countries and examined some of the key characteristics of these agencies. It also assessed the progress of these agencies in adopting a consistent framework of regulation and supervision for all financial intermediaries they oversee. In addition, the survey identified some of the practical problems that countries have faced in establishing a unified supervisory agency.

The survey led to five interesting findings. First, the need to supervise financial conglomerates effectively and on a consistent basis, along with the need to maximize economies of scale and scope, appeared as the two key reasons for adopting integrated supervision in most countries.

Second, a careful analysis of the regulatory and supervisory powers of the integrated agencies revealed that this group of agencies is not as homogeneous as it seems. On the one hand, there is a group of mega-supervisors with wide regulatory and supervisory powers over practically all intermediaries. On the other hand, there is second group of single supervisors with limited regulatory powers over the intermediaries they oversee. Finally, there is a third group of partially unified agencies that only supervise 2 of the 3 main sectors in the financial system.

The survey also revealed that in many countries, the ministries of finance and central banks continue playing a key role in issuing and amending relevant prudential regulations, authorizing or revoking licenses to financial intermediaries, and setting other important rules for the entire financial system.

Third, according to the survey only few countries have been able to design a single supervisory framework to harmonize regulations and supervisory approaches across the entire financial system. In most countries, progress towards the harmonization of prudential regulation and supervision across their intermediaries remains limited. On the one hand, most of the new integrated agencies are relatively new institutions which did not participate in the design of existing legislation. They will require more time to harmonize their regulatory and supervisory standards. On the other hand, the lack of harmonized regulatory standards for banks, insurance

companies and securities intermediaries at an international levels makes the development of harmonized standards at a national level more difficult to accomplish, since countries prefer to follow internationally recognized standards.

One of the main risks of *not* unifying regulatory and supervisory processes in the integrated agencies is that former specialized agencies will continue to operate separately, each one applying their own approach to regulation and supervision. In the absence of regulatory and supervisory integration, unified agencies may become a simple umbrella providing physical room for former agencies, preserving different approaches to supervision and providing a false feeling that real change has taken place.

Fourth, in the countries covered in this survey there seems to be a higher degree of integration (consistency) in the regulation and supervision of banks and securities companies than between banks and insurance firms.

Finally, most countries have confronted practical problems in the establishment and operation of their unified supervisory agencies. Problems have included, among others, departure of experienced personnel, inappropriate legal systems, and lack of focus of the new integrated agency. These problems reflect the complexity of the practical issues involved in the adoption of integrated supervision. The management challenge of merging a number of different regulatory agencies should not be underestimated. If the unification process is not managed appropriately, there is the risk is that it can go off track. Moreover, where one of the merging agencies – normally the banking supervisor -- has a disproportionate number of staff, resources and facilities, as compared with the other supervisors, there is the risk that the approach to regulation and supervision of the dominant agency prevails over the others.

Integrated supervision is still a recent phenomena and its effectiveness has not been proven yet. In fact, all unified supervisory agencies covered in this survey are still in the process of formulating and testing their new tools to supervise their financial sectors. Countries considering integrated supervision should carefully assess the pros and cons of it in a broad context, taking into account the size, structure and stage of development of their financial systems. Making the decision to move to an integrated agency is just the beginning of the process. The implementation is the most difficult part of it. This survey revealed that, whatever the form an integrated supervisory agency takes (mega-supervisor versus partially unified agency), a comprehensive plan and strong managerial skills will be needed to make integrated supervision work.

The lessons learned from countries that have adopted integrated supervision may also be valuable for countries that decide to keep their system of multiple agencies supervising the financial system. Many of the issues faced by integrated supervisors must also be faced by non-integrated supervisors that wish to improve the effectiveness of supervision. For instance, countries with multiple supervisory agencies must also deal with the challenges posed by financial conglomerates. Also, they must decide on the optimal degree of harmonization of regulatory and supervisory practices in order to minimize regulatory arbitrage. Moreover, they must ensure that the different types of supervisors communicate and coordinate appropriately.

In a model of integrated supervision, these issues have to be dealt with immediately, whereas in countries with multiple supervisors these issues do not necessarily require immediate attention. Nonetheless, if a country wishes to strengthen the overall quality of regulation and supervision in the financial sector, these are important issues that need to be addressed sooner or later.

Possible Areas for Future Research

As this survey has shown, integrated supervision is a topic that requires much more research. An important issue to examine is whether, and under what conditions, the adoption of integrated supervision improves the overall effectiveness of prudential supervision. Has the effectiveness of prudential supervision improved more rapidly in countries that adopted integrated supervision than in other countries? If so, why? Are certain types of integrated supervisory agencies more effective than others (single regulators vs. partially-integrated agencies)? Are agencies with a broad set of regulatory and supervisory powers more effective than agencies with limited powers? Are autonomous agencies more effective than agencies with no autonomy?

Another important area for future research is which types of countries may benefit most from integrated supervision. Is integrated supervision only appropriate for countries with developed and sophisticated financial systems or is it equally appropriate for all countries regardless of the size and stage of development of their financial systems? Is a single regulator and supervisor always adequate for small economies or are there circumstances in which separate regulators may be more appropriate for those countries?

It would also be important to examine how the benefits of integrated supervision can be maximized. Should laws and regulations be re-drafted to allow a functional rather than institutional-type of supervision? How should the departments within a single regulator be organized? Is there a particular structure that tends to maximize the benefits of integrated supervision? What are the most appropriate mechanisms to make unified agencies accountable?

Finally, it would be useful to explore to what extent integrated agencies are better prepared to handle the failure of financial conglomerates, or widespread financial sector crises, than separate supervisory agencies? And, if so, why? Are single supervisory agencies better prepared to facilitate financial innovation and overall financial sector development than separate supervisory agencies?

As more and more countries intensify their efforts to strengthen their financial sector supervision, the aforementioned questions are becoming more relevant. Certainly, more research on these topics can provide useful guidance to policy-makers to find the most appropriate institutional arrangements to regulate and supervise their financial systems.

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Annex 1-Questionnaire

1. Type of financial system and its stage of development

1.1 Please provide the following information on your financial system, both for the year in which the integration of supervisory agencies was decided (indicating the year) as well as the end of the year 2001 or 2000.

Data	1990⁽¹⁾	End of 2001 (if possible) or end of 2000	Comments
Total assets of private financial intermediaries (as a % of GDP)			
Total assets of private commercial banks (as a % of total assets of all financial institutions operating in your country)			
Total assets of other type of intermediaries (as % of total assets of private financial institutions operating in your country)			
Financial Conglomerates			
Total number of commercial banks			
Total number of financial conglomerates*			
Commercial banks that are part of or controlled by a domestic financial conglomerate			
Commercial banks that are part of or controlled by a foreign financial conglomerate			
Total assets of commercial banks that are owned or controlled by a (domestic or foreign) financial conglomerate, as % of total assets of private commercial banks in your country.			
Total assets of securities companies that are owned or controlled by a (domestic or foreign) financial conglomerate, as % of total assets of securities companies in your country.			
Assets of insurance companies that are owned or controlled by a financial conglomerate, as % of total assets of insurance companies in your country.			

(1) If information of this year is not available, please provide information on the earliest year you have information.

*The concept of financial conglomerate is broad and includes (i) a company, restricted to the financial services industry, that owns and / or controls a bank or other financial services firm, or (ii) a financial institution, ie a bank, or other bank or entity that owns and / or controls other financial institutions (usually as subsidiaries).

**Securities companies refer to all type of financial intermediaries in the securities industry, including but not limited to investment banks, brokerage companies, and fund management firms.

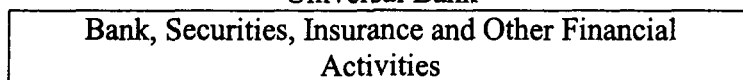
1.2 Are there commercial banks owned or controlled by commercial conglomerates? How many?

1.3 (Based on Figure A below), please indicate the type(s) (A, B, C or D) of financial conglomerate that are allowed to operate in your country:

1.4 (Based on Figure A below), please indicate the predominant type (A,B,C, or D) of financial conglomerate operating in your country:

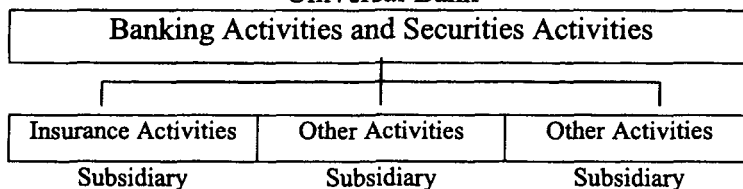
TYPE A: FULL INTEGRATION

Universal Bank



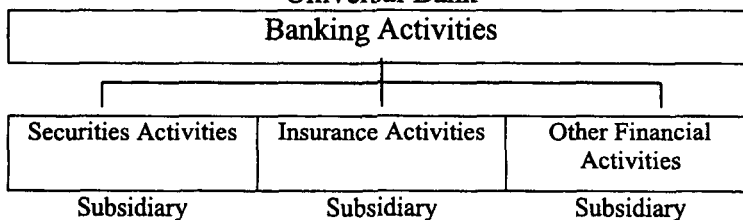
TYPE B: PARTIAL INTEGRATION

Universal Bank

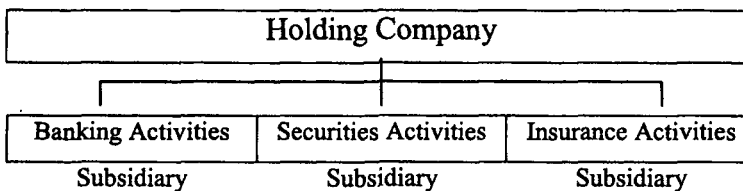


TYPE C: PARTIAL INTEGRATION

Universal Bank



TYPE D: HOLDING COMPANY STRUCTURE



2. Purpose of Unification

2.1 What were the main reasons for the unification of regulatory bodies in your country? Please indicate whether the following factors constituted a reason for unifying regulatory agencies in your country.

	Yes	No
1. Poor coordination and communication among existing supervisory bodies.		
2. Unregulated areas or non-supervised business activities due to fragmentation of supervisory functions.		
3. Weaknesses in the financial sector due to poor regulation and supervision of the financial industry		
4. Need to restructure all supervisory institutions (especially after a major financial crisis)		
5. Need to maximize economies of scale and scope		
6. Evolution of the financial system towards a more universal type system in which banks and other intermediaries become more integrated.		
7. Other (please describe)		

2.2 Before the unification of regulatory agencies was made, what type of arrangements were in place to coordinate the actions of the different regulatory agencies?

- (a) Formal inter-agency committees that meet regularly to discuss common issues
- (b) Informal committees that meet from time to time to discuss common issues

2.3 Did the above type of committees work adequately? If not, why not.

3. Type of unification and characteristics of the new supervisory entity

3.1 Please indicate the type of integration of supervisory bodies carried out in your country:

- a. Unification of banking, securities, and insurance regulator
- b. Unification of banking and securities supervisors
- c. Unification of banking and insurance supervisor
- d. Unification of banking and other supervisor

3.2 Please indicate (with *yes* or *no*) if the new unified entity has the following regulatory and supervisory powers in each of the market segments it oversees.

	Banking	Securities	Insurance	Other intermediaries	Comments
1. Set licensing requirements					
2. Approve license to a financial intermediary					
3. Revoke license to a financial intermediary					
4. Set accounting rules and information disclosure requirements					
5. Set rules on the composition of capital					
6. Set minimum capital requirements					
7. Set prudential regulations on market, credit, operational and liquidity risks					
8. Conduct on-site examinations					
9. Conduct off-site examinations and surveillance					
10. Impose sanctions and fines for non-compliance with rules and regulations					
11. Consumer protection (assist to resolve claims for abuses against users of financial services)					
12. h. Other (please describe)					

3.3 Do you consider that your institution should have any additional powers (prerogatives) to regulate and supervise financial intermediaries to fulfill its mandate adequately?

(a) Yes, which?

(b) No

3.4 Are there any plan to strengthen the powers of the new supervisory entity?

(c) Yes, which?

(d) No

3.5 Are there any type of intermediaries not regulated and supervised by the new entity? Which? Are there any plans to expand the supervisory scope of your institutions to this other type of intermediaries in the future?

3.6 Has the new unified supervisory entity been granted budgetary autonomy?

(a) Yes, it has its own funding sources (which are independent from political decisions).

(b) No

3.7 Are the staff of the entity legally protected to carry out their duties in good faith?

(a) Yes

(b) No

3.8 Does the laws require the head of the regulatory agency to be someone with several years of experience in the financial sector as well as good reputation in the financial industry?

(a) yes

(b) no

3.9 Can the head and members of the governing body of the main regulatory agency be removed by the Ministry of Finance, the Governor of the Central Bank or any other government official at any time?

(a) Yes

(b) No, the removal of the above officials is only possible through extraordinary procedures and causes established in the law.

Process of unification

4.1. When was the decision to unify regulatory agencies made? Please indicate year.

4.2. Who made the decision?

4.3. Were amendments to financial sector legislation required to merge the existing supervisory agencies or create a new one?

(a) Yes

(b) No

4.4. Since the agencies were merged, please indicate progress so far in homogenizing regulatory and supervisory processes across different type of intermediaries. Assign a score from 1 to 4 (1=none at all, 2=to some degree, 3=to a significant degree, 4=being complete) to the degree of unification that has been achieved so far.

DEGREE OF INTEGRATION OF REGULATORY AND SUPERVISORY PROCESSES

1. Same requirements for licensing				
2. Consolidated supervision				
3. Accounting rules in areas such as:				
• Valuation of real estate assets				
• Valuation of securities				
• Reserving for losses on assets				
• Valuation of "deposit" like products				
4. Similar components of capital				
5. Similar minimum capital adequacy requirements				
6. Assessment of risk management effectiveness in such areas as:				
• credit risk				
• market risk				
• operational risk				
• liquidity risk				
7. Off-site monitoring and analysis				

Rates: 1=none at all, 2=to some degree, 3=to a significant degree, 4=being complete

4.5 Please describe how the supervision of financial activities is done by the new merged entity?

(a) supervision is mainly done by type of intermediary

(b) supervision is mainly done by type of product (functional supervision), regardless of the type of intermediary carrying out a certain business activity

(c) a combination of both approaches

4.6 Do you have plans to adopt a more “functional” approach to financial supervision?

- (a) Yes, please describe planned activities to achieve this goal.
- (b) No

4.7 Please indicate how long it took your organization to accomplish the following goals, based on the date the merger of supervisory agencies was announced.

Objective	No. of months	Comments
1. Set in the legal framework the scope of legal powers, responsibilities and goals of the new regulatory agency		
2. Set the definitive organizational structure of the new merged entity		
3. Appoint (confirm) the heads of the new departments of the merged entity		
4. Set the strategic (business) plan of the new entity describing its objectives, strategies and actions needed to achieve them		
5. Re-allocate personnel and define new roles		
6. Integrate the IT systems of the merged entities		
7. Integrate budgetary processes		

5. Assessing unification

5.1 Has the quality of supervision improved thanks to the unification of regulatory agencies?

- (a) Yes, it has improved rapidly.
- (b) Yes, but it has improved slowly.
- (c) No

5.2 How long will it take to complete the integration of the unified supervisory agency?

- (a) less than 6 months
- (b) between 6 and 12 months
- (c) between 1 and 2 years
- (d) between 2 and 4 years
- (e) more than 4 years

5.3 Do you carry out consolidated supervision of financial intermediaries?

- (a) Yes
- (b) No. Are you planning to do it? What steps are needed to implement it?

6. Problems in Unification

6.1 Please indicate whether policy- makers have faced any of the following problems to integrate the supervisory entities.

	No	Yes, to a small degree	Yes, to a significant degree
1. Legal constraints (need to amend a number of financial sector legislations).			
2. Budgetary problems (insufficient funds to complete the integration of agencies).			
3. Demoralization of staff of the merged entities.			
4. Lack of mission and clarity and the new merged institution.			
5. Departure of experienced personnel.			
6. Delays to integrate IT systems and infrastructure of merged agencies			
7. Other (please describe).			

6.2 During the process of supervisory integration, has one type of the existing supervisors tended to dominate the others (eg banking supervision dominate the others)?

- (a) Yes, please provide comments on how you have addressed this issue.
- (b) No

6.3 Do you think that the regulation and supervision of one intermediary (e.g. securities or insurance) has received less attention than what it deserves due to the integration of supervisory approaches within a single agency?

- (a) Yes, how have you resolved the problem?
- (b) No

6.4 Has integrating regulation and supervision across different financial intermediaries proven more difficult and lengthy than initially foreseen?

- (a) Yes, please provide comments
- (b) No

7. Lessons for other countries

7.1 Please draw some lessons from the process of supervisory unification in your country that you may want to share with financial authorities of other countries planning to unify their supervisory agencies. You may want to provide comments on the following areas:

- Key issues before deciding the merger of supervisory entities.
- Rapid versus slow approaches for integrating supervisory agencies
- Minimum elements of a strategic plan to merge supervisory agencies
- Management issues (motivating staff for change)
- Establishing a new organizational culture
- Approaches for integrating supervision of different intermediaries
- Other

Annex 2

Market Share of Financial Conglomerates in the Bank, Securities and Insurance Sectors in Selected Countries (1990* vs. 2001)

	Banking		Securities		Insurance	
	1990*	2001	1990*	2001	1990*	2001
Australia	98.00%	98.00%	n.a.	n.a.	96.90%	97.60%
Canada	8.00%	5.00%	n.a.	n.a.	n.a.	n.a.
Denmark	73.00%	79.00%	99.00%	61.00%	62.00%	66.00%
Estonia	97.30%	97.50%	n.a.	n.a.	n.a.	27.00%
Hungary	50.30%	96.90%	68.20%	94.00%	78.60%	90.50%
Iceland	n.a.	na	48.30%	44.30%	n.a.	n.a.
Korea	n.a.	99.10%	n.a.	92.50%	n.a.	78.90%
Latvia	19.50%	41.90%	n.a.	35.30%	17.90%	45.30%
Luxembourg	n.a.	17.90%	n.a.	n.a.	n.a.	n.a.
Malta	0.00%	32.00%	83.00%	57.00%	8.00%	33.00%
Mexico	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Norway	3.00%	70.00%	0.00%	72.00%	0.00%	69.00%
Singapore	99.00%	99.00%	76.00%	81.00%	62.00%	58.00%
Sweden	78.00%	89.00%	7.00%	31.00%	2.00%	22.00%
UK	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
AVERAGE**	52.61%	70.83%	54.50%	62.90%	40.93%	70.18%

*or earliest available date. For Australia the earliest available year was 1999, for Canada 1995, for Estonia 2000, for Hungary 1993, for Korea 1997, for Latvia 1998, for Luxembourg 1994, for Malta 1994, Singapore 2000, Sweden 1993. For all other countries, the information used was from year 1990.

** The figure was calculated using only information from countries that reported information on both years.

Annex 3

Countries that Have Adopted Integrated Supervision Size and Composition of Their Financial Systems

Country	Assets of all private intermediaries (as % of GDP)	Composition of the financial system (Banks vs. NBFIs)	
		Assets of banks (as % of assets of all intermediaries)	Assets of NBFIs (as % of assets of all intermediaries)
1. Australia	501.00%	73.00%	23.00%
2. Canada	190.00%	75.00%	25.00%
3. Denmark	394.00%	38.00%	62.00%
4. Estonia	91.29%	77.60%	22.40%
5. Hungary	81.80%	66.40%	33.60%
6. Iceland	101.90%	24.40%	49.70%
7. Korea	181.60%	50.80%	49.20%
8. Latvia	71.80%	96.00%	4.00%
9. Luxembourg	3221.30%	94.90%	5.10%
10. Malta	383.00%	97.00%	3.00%
11. Mexico	36.07%	76.11%	23.9%
12. Norway	144.00%	35.00%	65.00%
13. Singapore	827.00%	95.00%	5.00%
14. Sweden	219.00%	63.00%	37.00%
15. UK	630.00%	54.00%	46.00%
Average	471.58%	67.75%	30.26%
Average (without Luxembourg)	264.92%	52.09%	31.49%

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